

EXHIBIT 1

Volkswagen emission scandal widens: 11 million cars affected

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Investors crush Volkswagen shares as company sets aside \$7.3 billion to address software that manipulates emissions tests.



(Photo: Julian Stratenschulte, European Pressphoto Agency)

Volkswagen's emissions scandal ballooned Tuesday as the company admitted that software designed to fool regulators affects 11 million vehicles worldwide and could cost more than \$7 billion to address, threatening to undermine its new position as the world's largest automaker.

The automaker's deception immediately qualifies as one of the most expensive automotive scandals in recent memory and could jeopardize CEO Martin Winterkorn's job as his contract comes up for renewal.

The company's crisis dragged down stocks in Germany, undermined Volkswagen's claims of environmentally advanced diesel engineering and threatened to reverse the automaker's sales gains on Toyota as the world's biggest vehicle maker — a title it seized in the first six months of 2015.

Unlike General Motors' accidental ignition-switch defect, which killed more than 120 people, Volkswagen engineers intentionally designed cars to circumvent regulators.

While Volkswagen's transgression hasn't killed anyone, it has sown distrust among consumers.

"This could damage the Volkswagen brand globally for years to come," said former automotive marketing executive Peter De Lorenzo, blogger at Autoextremist.com, in an interview. "Trust and belief in the brand has been broken."

Winterkorn pledged to regain the public's trust and "find out exactly what happened" amid speculation that he could lose his job over the crisis. Winterkorn's contract, coincidentally, is up for renewal at the automaker's board meeting Friday ([/story/money/cars/2015/09/02/volkswagen-ceo-gets-contract-extension/71564856/](http://story/money/cars/2015/09/02/volkswagen-ceo-gets-contract-extension/71564856/)). A subcommittee will meet Wednesday to recommend whether the full board should extend the CEO's deal.

He apologized Tuesday for the second time in four days, but gave no indication that he'll consider resigning. He said, "We are asking for trust as we move forward."

"We are working very hard on the necessary technical solutions," he said, according to an English translation of his remarks provided by Volkswagen. "And we will do everything we can to avert damage to our customers and employees. I give you my word: we will do all of this with the greatest possible openness and transparency."

Analysis: Deception fuels Volkswagen emissions scandal
(<http://www.usatoday.com/story/money/cars/2015/09/22/analysis-deception-fuels-volkswagen-emissions-scandal/72608782/>)

Investors crushed the German automaker's stock, driving shares down 20%, a day after the stock plunged 19% ([/story/money/cars/2015/09/21/volkswagen-stock-epa-emissions-diesel-cars/72551936/](http://story/money/cars/2015/09/21/volkswagen-stock-epa-emissions-diesel-cars/72551936/)).

The crisis began Friday when the U.S. Environmental Protection Agency accused Volkswagen of installing sophisticated software on nearly 500,000 U.S. vehicles to manipulate emissions tests.

The technology tricks regulators into believing that four-cylinder diesel cars comply with emissions standards, but the cars are actually emitting harmful pollutants at rates of up to 40 times acceptable standards. Volkswagen quickly halted sales of the cars after the allegations surfaced.

The U.S. Justice Department has opened a criminal probe into the automaker's actions. The EPA has an investigation, and foreign regulators are expected to launch their own probes.

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Volkswagen acknowledged "a notable deviation between bench test results and actual road use" in the affected vehicles.

Volkswagen said it would set aside 6.5 billion euro, or \$7.3 billion, in its third quarter to address the matter and warned that the amount could change. In the U.S., the EPA could fine Volkswagen up to \$37,500 per car, which would equal a maximum fine of \$18 billion.

The scandal raises serious questions about whether high-level executives knew about the software, which had been installed on some nameplates for at least six consecutive model years.

Earlier this month, a subcommittee of Volkswagen's board recommended that the full panel extend Winterkorn's contract through 2018. The official renewal at Friday's board meeting was viewed at the time as a routine matter, but now it may be up in the air.

Winterkorn kept his job earlier this year after then-chairman Ferdinand Piech tried to displace him. Piech exited the company shortly after his failed effort.

De Lorenzo, the automotive marketing veteran, said Winterkorn will be forced to answer questions about his knowledge of the emissions scandal.

"He's very much detailed-oriented. He's always regaled his underlings with his depth of knowledge of detailed items that they would assume he wouldn't bother with," De Lorenzo said. "I think heads will roll and this could bring down Winterkorn and some of his trusted lieutenants."

Dave Sullivan, an analyst with AutoPacific, said the "chances of him coming out unscathed have got to be very small."

The EPA has said the software affected the four-cylinder diesel versions of the 2009 to 2015 Jetta, Beetle and Golf; the 2014 and 2015 Passat; and the 2009 to 2015 Audi A3.

The episode is likely to trigger a recall and a flurry of consumer lawsuits. It may prompt the company to compensate individual car owners or other measures.

U.S. Sen. Bill Nelson, D-Fla., called on the Federal Trade Commission to investigate Volkswagen's marketing of "clean diesel" vehicles.

EPA officials have pledged to punish Volkswagen. The crisis took on an additional political bent Tuesday afternoon when Democratic presidential candidate Hillary Clinton tweeted about the scandal: "Outrageous. When companies put profits ahead of safety and the environment, there should be consequences."

Volkswagen's sheer size may help the company navigate the crisis without jeopardizing its future. The company had 12.7 billion euros in operating profit in 2014, as well as 592,586 employees globally.

Brian Moody, site editor for AutoTrader.com, said Volkswagen took the right step by apologizing quickly.

"Doing it the way they're doing it it makes sense," he said in an interview. "I think they'll get past it quicker. I think taking the head-on approach will be better for them in the long run."

Still, the scandal may endanger the reputation of diesel cars in the U.S., where many consumers still view the cars skeptically. A gallon of diesel fuel cost 22 cents more than a gallon of unleaded gasoline in the U.S. as of Tuesday afternoon, according to GasBuddy.com.

What's more, European regulators are expected to place Volkswagen under intense scrutiny. And the scandal could bode poorly for Volkswagen in the world's largest vehicle market, China, where Volkswagen is No. 1 by market share.

"The problem is the Chinese are starting to realize they have got to do something with their air and this could have an effect on the relationship the Chinese have with Volkswagen," Sullivan said.

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